

Message Text

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ACTION SS-25

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FM AMEMBASSY ADDIS ABABA

TO SECSTATE WASHDC 4184

INFO AMCONSUL ASMARA

C O N F I D E N T I A L ADDIS ABABA 4773

EXDIS/NOFORN

E.O.11652: GDS

TAGS: EFIN

SUBJ: REPORTS OF CONVERSION OF OLD BANK NOTES TO NEW AND
POSSIBLE DEVALUATION

EXDIS/NOFORN

1. THE EMBASSY HAS LEARNED FROM A NEW SOURCE PRESUMED RELIABLE AND WITH ACCESS TO THIS INFORMATION THAT THE EPMG IS TO ANNOUNCE THE CONVERSION OF OLD BANK NOTES FOR NEW ONES ON MAY 1. THE FIRST SHIPMENT OF THE NEW CURRENCY IS ALLEGEDLY ALREADY IN-COUNTRY AND WILL SHORTLY BE FOLLOWED BY ADDITIONAL SHIPMENTS. THE SOURCE IS NOT CERTAIN WHETHER THE NOTES WERE PRINTED IN THE UK OR SWITZERLAND.

2. THE SAME SOURCE ALSO INDICATED THAT A DEVALUATION OF THE ETHIOPIAN DOLLAR WILL BE IMPLEMENTED AT THE SAME TIME WITH THE NEW RATE OF EXCHANGE FIXED AT ETH\$3.04 TO US\$1.00. WE THINK THE SOURCE HAS ONLY INDIRECT ACCESS TO THIS INTELLIGENCE.

COMMENT.

3.A. CONVERSION OF ETHIOPIAN BANK NOTES SOUNDS PLAUSIBLE AND IS CERTAINLY TO BE EXPECTED. ACCORDING TO A REPRESENTATIVE OF A FIRM SPECIALIZING IN PRODUCTION OF CURRENCIES, AT LEAST SIX MONTHS ARE REQUIRED TO SUPPLY NEW BANK NOTES AFTER AN ORDER IS RECEIVED; IT SHOULD BE NOTED IN THIS CONNECTION THAT THE EMPEROR WAS DEPOSED ABOUT SEVEN MONTHS AGO.

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B. IF THIS CONVERSION IS CARRIED OUT IT MAY BE ACCOMPANIED BY AN UPPER LIMIT ABOVE WHICH AN INDIVIDUAL WOULD HAVE TO EXPLAIN THE REASONS FOR HIS CURRENCY HOLDINGS AND DEMONSTRATE THAT HE HAS MET HIS TAX OBLIGATIONS. THIS HAS BEEN DONE IN OTHER COUNTRIES (E.G., PAKISTAN, NIGERIA) IN ORDER TO IDENTIFY TAX EVADERS.

C. THE POSSIBILITY OF A DEVALUATION APPEARS LESS LIKELY AND HAS, OF COURSE, NO NECESSARY CONNECTION WITH CONVERSION OF CURRENCY. THERE ARE MANY VIEWS REGARDING THE WISDOM OF A DEVALUATION AT THIS JUNCTURE AND IF CARRIED OUT IT MAY SIGNAL A SIGNIFICANT SHIFT IN THE ECONOMIC POLICY OF THE EPMG FROM TRYING TO CONTAIN INFLATION IN URBAN AREAS TO INCREASING INCENTIVES TO FARMERS ENGAGED IN PRODUCTION OF EXPORT CROPS. IF THE DEVALUATION IN FACT OCCURS, THE EMBASSY WILL SUBMIT A THOROUGH ANALYSIS OF ITS ECONOMIC AND POLITICAL IMPLICATIONS. IT MAY NOT BE PREMATURE TO STATE, HOWEVER, THAT ANY DEVALUATION, PRESUMABLY INEVITABLY FOLLOWED BY PRICE INCREASES FOR IMPORTED COMMODITIES SUCH AS PETROLEUM, COULD QUICKLY PROVE DESTABILIZING POLITICALLY, PARTICULARLY IN THE URBAN CENTERS.
HUMMEL

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